



October 2004 Finance Report

Information Technology Investment Board Finance Committee Meeting October 4, 2004

This month's finance report provides information on the following topics:

- FY04 financial results
- Savings report update
- Finance planning schedule
- September 2004 JLARC submission for revised and new service rates
- Proposed amendments to the 2004 – 2006 biennial budget

FY04 Financial Results

VITA ended fiscal year 2004 in healthy overall condition as well as by specific fund, as summarized below.

Internal Service Funds

	YTD Actual June 30, 2004	Projected June 30, 2004	Budgeted Fiscal Year 2004
Operating Revenues	\$112,717,161	\$110,381,900	\$117,498,286
Expenses, including transfers	111,389,347	111,479,900	126,851,416
Change in Net Assets	1,327,814	(1,098,000)	(9,353,130)
Total Net Assets, July 1	26,460,186	26,460,000	26,460,186
Total Net Assets, June 30	\$ 27,787,800	\$ 25,362,000	\$ 17,107,056

VITA's financial performance in its internal service funds for fiscal year 2004 was as expected. During the fourth quarter rates were reduced for Unisys services; however, revenues were larger than expected due to an increase in usage. Therefore, VITA ended the fiscal year with an overall increase in net assets of \$1.3 million, for a total of \$27.8 million, in its internal service funds. These funds account for the majority of VITA's revenues and expenses, including telecommunications, computer and consulting services.

**Enterprise Funds
Actual Financial Results
For the Fiscal Year Ended June 30, 2004**

Operating Revenues	\$70,016,785
Expenses, including transfers	81,718,155
Change in Net Assets	(11,701,370)
Total Net Assets, July 1	27,250,283
Total Net Assets, June 30	\$15,548,913

Enterprise funds ended the year with a decrease in net assets due primarily to a \$10.7 million General Assembly mandated transfer to the Commonwealth's general fund. These funds account for revenues and expenses incurred in the administration of the Commonwealth's E-911 and Virginia Web Portal activities. The E-911 fund experienced an expected loss of \$1.9 million and the Portal fund realized a gain of \$938,000, both before transfers.

**Governmental Funds
Actual Financial Results
For the Fiscal Year Ended June 30, 2004**

	General Funds	Special Revenue Funds	Federal Funds
Revenues, including transfers	\$7,519,795	\$2,402,618	\$1,993,071
Expenditures, including transfers	7,518,481	1,847,900	
Net Change in Fund Balance	1,314	554,718	1,993,071
Fund Balance, July 1	-	527,576	
Fund Balance, June 30	\$ 1,314	\$1,082,294	\$1,993,071

General funds were used for start-up and strategic management expenses. By their nature these funds must be spent prior to fiscal year end. VITA's general fund ended the year with a balance of \$1,314.

Special revenue funds are a mix of small activities. The only activity with any notable activity was the Industrial Funding Account. Revenues are the result of contractual payments made by the state's information technology vendors. This account funds general government activities, including support to the Governor's Office that should not be billed to state agencies and other customers. The fund has revenues of \$1.9 million and expenditures of \$1.7 million leaving a year end balance of just over \$100,000.

VITA received almost \$2 million in federal grant funds in fiscal year 2004. These funds were transferred from the Commonwealth's Emergency Management agency and the Health Department. They will be used to build a statewide alert network for bioterrorism and for other threats to the security of the citizens of the Commonwealth.

The following financial statements for the Virginia Information Technologies Agency as of June 30, 2004 are provided at the end of this report:

- Combined Balance Sheet for Internal Service Funds—Exhibit A
- Combined Statement of Revenues, Expenses, and Changes in Net Assets for Internal Service Funds—Exhibit B
- Combined Statement of Cash Flows for Internal Service Funds—Exhibit C
- Combined Statement of Revenues, Expenses, and Changes in Net Assets for Enterprise Funds—Exhibit D
- Combined Statement of Revenues, Expenses and Changes in Net Assets for General and Special Revenue Funds—Exhibit E

Savings Report Update

Since July 2003, VITA has implemented numerous information technology initiatives that have resulted in savings or cost avoidance to Commonwealth agencies. Savings as of October 1, 2004, are shown in Exhibit F with projections over a six-year period. Since the July 2004 Committee meeting, VITA renegotiated its Verizon local phone service contract resulting in projected savings of \$28M over the six year period and realigned the Virginia Partners in Procurement contract savings on the report.

Exhibit F
Projected Cost Savings
(as of October 1, 2004)

Initiative	FY 04 Savings	FY 05 Savings	FY 06 Savings	Six-Year Baseline Benefit
Voice and data telecommunications contract extension (ATM T-1 Circuits)	\$528,000	\$528,000	\$528,000	\$3,168,000
Conversion of Unix and Oracle contractors to full-time positions	\$132,000	\$132,000	\$132,000	\$792,000
Efficient tape technology stacking and replacement	\$173,000	\$108,000	\$108,000	\$713,000
Telecommunications MCI contract (COVANET)	\$1,542,000	\$3,085,000	\$3,085,000	\$16,967,000
Verizon contract renegotiation	\$0	\$4,675,000	\$5,861,000	\$28,119,000
Streamline 1-800 voice services	\$2,000	\$103,000	\$103,000	\$517,000
Streamline cellular usage	\$524,000	\$1,333,000	\$1,333,000	\$7,189,000
SAG software contract renegotiation	\$8,000	\$32,000	\$32,000	\$168,000
Sun server procurement	\$484,000	\$0	\$0	\$484,000
Virginia Partners in Procurement – Hardware and Software (Wave I)	\$12,098,000	\$14,576,000	\$14,576,000	\$84,978,000
Virginia Partners in Procurement – Computer Peripherals and Enterprise Storage (Wave II)	\$174,000	\$558,000	\$558,000	\$2,964,000
Subtotal, Savings	\$15,665,000	\$25,130,000	\$26,316,000	\$146,059,000

Note: These figures included calculated savings from a variety of sources including, but not limited to, federal funds, state general fund dollars, and special funds. Savings associated with ATM T-1 Circuits, COVANET and cellular usage have been withdrawn from the agencies' budgets in HB 2001.

In addition to the above cost savings, VITA's initiatives have resulted in estimated cost avoidances as shown in Exhibit G. VITA has reduced the cost of doing business so that state agencies have been able to avoid paying higher costs for equipment or services they would have otherwise had to purchase.

Exhibit G
Projected Cost Avoidances
(as of October 1, 2004)

Initiative	FY 04 Savings	FY 05 Savings	FY 06 Savings	Six-Year Baseline Benefit
Software Licenses	\$495,000	\$615,000	\$615,000	\$3,570,000
Server Acquisitions	\$380,000	\$380,000	\$0	\$760,000
Subtotal, Cost Avoidance	\$875,000	\$995,000	\$615,000	\$4,330,000
Total, Savings & Cost Avoidance	\$16,540,000	\$26,125,000	\$26,931,000	\$150,389,000

Finance Planning Schedule

In the July 2004 Finance Committee meeting, the Committee requested a schedule for key finance activities. This schedule is shown in Exhibit H. A calendar with specific dates will be developed for each fiscal year and provided to the Committee for planning purposes.

Exhibit H Finance Planning Schedule

Finance Committee Meeting Month	Activity	Fund Type
February	Approval of rates for new services, if necessary, for submission to JLARC for approval at its first meeting after General Assembly session.	Internal service funds
	Review of December actual results.	All funds
April	Approval of rates for new services, if necessary, for submission to JLARC at its May meeting.	Internal service funds
	Review of February actual results.	All funds
June	Approval of VITA's fiscal year operating budget.	All funds
	Approval of annual rate changes for existing services, to be provided to JLARC for approval at its July meeting and to DPB for inclusion in September guidance to agencies.	Internal service funds
	Approval of rates for new services, if necessary, for submission to JLARC at its July meeting.	Internal service funds
	Review of April actual results.	All funds
	Review of VITA operations and governance activities (audit) and new fiscal year audit work plan	All activities
August	Approval of rates for new services, if necessary, for submission to JLARC at its September meeting.	Internal service funds
October	Approval of budget amendments for submission to DPB for general funds.	General funds
	Review of prior fiscal year results.	All funds
	Approval of rates for new services, if necessary, for approval at its November meeting.	Internal service funds
December	Approval of rates for new services, if necessary, for submission to JLARC at its first meeting after General Assembly session (unless special January meeting is held).	Internal service funds
	Review of October actual results.	All funds

There may be activities that come due between Finance Committee meetings where it is impractical to assemble the Committee for approval. As such, the following motion is suggested:

VOTED, that the ITIB Finance Committee authorizes the CIO to proceed with key financial activities that come due between Finance Committee meetings so as not to impede VITA's ability to perform day-to-day activities. The Finance Committee shall be given five days to review materials and provide feedback; if no feedback is received within five days, the CIO may assume approval and proceed accordingly.

September 2004 JLARC Submission for Revised and New Service Rates

VITA submitted a request to JLARC on September 22, 2004 to approve changes to four of its existing legacy rates and to approve rates for seven new services. The net annualized impact of the legacy rate changes on VITA customers is \$1 million, primarily as a result of shortfalls in COVANET and Router Services revenues. Of the \$1 million additional cost, approximately \$0.7 million applies to in-scope agencies.

The COVANET shortfalls are resultant from the 2003 contract savings that were passed through to VITA customers. This resulted in lower revenues to VITA that did not cover VITA's fixed costs. Increased demands on VITA's network coupled with the increased emphasis on business continuity prompted additional expenses for router equipment; these additional expenses have created the increase proposed for the Router Services rate.

VITA's rate proposal also included four new rates for services that are currently provided. Of these four, three are services for which VITA has never charged its customers. The fourth service utilized an existing rate to charge our customers; to more accurately reflect actual costs, a new rate has been developed for this service. These rates will result in an additional \$1.1 million in revenues to VITA on an annual basis.

Three new rates for new services not previously provided by VITA were proposed to JLARC. Server Disk Storage services will provide large disk storage devices that can be shared by multiple applications and customers. Oracle Financials services will allow VITA to develop a shared services environment for those agencies running Oracle Financials today. Government to Government Enterprise Services Interface (GESI) will facilitate access to and data retrieval from multiple systems as required by Social Services workers in local government offices. These new services will provide an estimated \$1 million in annual revenues to support related costs.

VITA finance staff is working with JLARC analysts to provide more detailed information in response to JLARC questions. The full JLARC proposal is provided under separate cover.

The following motion is recommended:

VOTED, that the ITIB Finance Committee approves the September 22, 2004 JLARC submission.

Proposed Amendments to the 2004-06 Biennial Budget

VITA has prepared nine budget amendments for consideration by the ITIB for submission to the Department of Planning and Budget. These amendments provide key support for critical VITA initiatives and were submitted for review and approval to the Secretary of Technology on September 24. Preliminary approval by the Secretary has been received, pending final revisions to our submission. These revisions include an agreement to combine VITA's priorities 8 (Expand E-Government) and 9 (VIPNet Restoral) into one amendment and add a new amendment for IT project planning funds. The final list of budget amendments is shown in Exhibit I.

Exhibit I 2005 VITA Budget Amendments Summary (Includes funding requirements for FY 2005 and FY 2006)

Priority	Title/Description	Total Biennial Funding Req'd (\$ in Millions)
1	Relocate VITA data center and offices to secure and flexible facility	<i>See Note Below</i>
2	Enhance support of VGIN – update base mapping and central address file	4.59
3	Build incident management capability to prevent/contain cyber attacks	1.57
4	Support small agency desktop services	1.04
5	Enhance IT strategic planning and project management performance and decision making	2.93
6	Fund transition costs of incoming administration	.35
7	Purchase enterprise contract management system	.50
8	Expand E-Government	2.79
9	Provide IT project planning funds	7.0
	TOTALS, Amendments 2 through 9	\$20.77

Note: Discussion of Amendment Priority 1 will take place in executive session.

A proposed letter for the Board to endorse the budget amendments is at Attachment 1.

The following motion is recommended:

VOTED, that the ITIB Finance Committee approves the proposed 2004 – 2006 biennium budget amendments for submission to the ITIB and the Department of Planning and Budget on October 13, 2004.

Exhibit A
Combined Balance Sheet
Internal Service Funds

	Totals 2004	Totals 2003
Assets		
Current Assets:		
Cash with Treasurer of Virginia	\$ 20,011,366	\$ 14,060,971
Petty Cash and Travel Advances	8,000	8,000
Accounts Receivable	15,805,664	16,596,576
Due From Other Funds	-	-
Due from Commonwealth of Virginia	-	-
Prepaid Expenses	2,816,219	3,492,988
Total Current Assets	38,641,249	34,158,535
Noncurrent Assets		
Depreciable Capital Assets, Net	18,777,835	22,089,706
Total Assets	\$ 57,419,084	\$ 56,248,241
Liabilities		
Current Liabilities:		
Accounts payable	\$ 10,059,534	\$ 7,813,213
Notes Payable	6,012,119	4,990,872
Advances from Treasurer of Virginia	1,723,294	1,605,172
Accrued Compensated Absences	-	-
Other Deferred Revenue	405,335	171,517
Due to Federal Government	842,775	679,200
Other Liabilities		616,590
Total Current Liabilities	19,043,057	15,876,564
Noncurrent Liabilities:		
Notes Payable	9,005,384	12,437,328
Accrued Compensated Absences	1,582,644	1,474,163
Total Noncurrent Liabilities	10,588,028	13,911,491
Total Liabilities	29,631,084	29,788,055
Net Assets		
Investment in Capital Assets, Net of Related Debt	7,137,531	9,742,188
Unrestricted	20,650,469	16,717,998
Total Net Assets	27,787,800	26,460,186
Total Liabilities and Net Assets	\$ 57,419,084	\$ 56,248,241

Exhibit B
Combined Statement of Revenues, Expenses, & Changes in Net Assets
Internal Service Funds

	<u>Totals</u>	<u>Totals</u>
	<u>2004</u>	<u>2003</u>
Operating Revenues		
Charges for Services	\$ 112,717,161	\$ 113,973,249
Total Operating Revenues	<u>112,717,161</u>	<u>113,973,249</u>
Operating Expenses		
Personal Expenses	28,620,007	26,993,581
Contractual Services	63,603,282	63,756,143
Supplies and Materials	356,063	312,800
Educational Assistance and Transfer Payments	-	8,543
Rent, Insurance & Other Related Charges	8,642,019	8,379,791
Depreciation	7,879,929	7,274,862
Expendable Equipment/Improvements	<u>1,194,823</u>	<u>5,668,068</u>
Total Operating Expenses	<u>110,296,123</u>	<u>112,393,788</u>
Operating Income (Loss)	<u>2,421,037</u>	<u>1,579,461</u>
Nonoperating Revenues (Expenses)		
Interest	(492,449)	(473,387)
Reimbursement to Federal Government	(163,575)	(111,500)
Revenue from the Sale of Recyclable Materials	1,287	10,231
Proceed from Insurance Recoveries	9,277	-
Sale of Surplus Property	-	-
Loss on Fixed Asset Disposal	<u>-</u>	<u>(1,672)</u>
Total Nonoperating Expenses	<u>(645,461)</u>	<u>(576,328)</u>
Income (Loss) Before Transfers	<u>1,775,577</u>	<u>1,003,133</u>
Transfers		
Transfers from Other Funds	25,220	-
Transfers to the General Fund of the Commonwealth	(472,983)	(905,823)
Transfers from the General Fund of the Commonwealth	<u>-</u>	<u>-</u>
Total Transfers	<u>(447,763)</u>	<u>(905,823)</u>
Increase (Decrease) in Net Assets	1,327,814	97,310
Total Net Assets, July 1	<u>26,460,186</u>	<u>26,362,876</u>
Total Net Assets, June 30	<u><u>\$ 27,787,800</u></u>	<u><u>\$ 26,460,186</u></u>

Exhibit C
Combined Statement of Cash Flows
Internal Service Funds

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities		
Receipts for Sales and Services	\$ 8,003,842	\$ 6,167,230
Internal Activity - Receipts from Other Funds	108,600,148	115,077,719
Internal Activity - Payments to Other Funds	(2,072,960)	(1,772,752)
Payments to Suppliers for Goods and Services	(5,854,670)	(8,944,594)
Payments for Contractual Services	(65,550,537)	(66,303,986)
Cash Payments to Employees for Services	(29,394,213)	(26,790,567)
Other	<u>10,564</u>	<u>10,231</u>
Net Cash Provided by Operating Activities	<u>13,742,174</u>	<u>17,443,281</u>
Cash Flows from Noncapital Financing Activities		
Transfers In from Other Funds	25,220	-
Transfers Out to Other Funds	(472,983)	(905,823)
Other Noncapital Financing Disbursements - Pyament to Fed Govt	<u>-</u>	<u>(703,424)</u>
Net Cash Used in Noncapital Financing Activities	<u>(447,763)</u>	<u>(1,609,247)</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Equipment	822,710	-
Acquisition of Capital Assets	(2,295,664)	(2,397,412)
Principal Paid on Notes Payable	(5,378,613)	(2,715,034)
Interest Paid on Notes Payable	<u>(492,449)</u>	<u>(473,387)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(7,344,016)</u>	<u>(5,585,833)</u>
Net Increase (Decrease) in Cash	5,950,395	10,248,201
Cash, July 1	<u>14,068,971</u>	<u>3,820,770</u>
Cash, June 30	<u><u>\$ 20,019,366</u></u>	<u><u>\$ 14,068,971</u></u>

Exhibit D
Combined Statement of Revenues, Expenses, & Changes in Net Assets
Enterprise Funds
For Period Ended June 30, 2004

	<u>Totals</u>	<u>Totals</u>
	<u>2004</u>	<u>2003</u>
Operating Revenues		
Charges for Services	\$ 70,016,785	\$ 64,360,487
 Total Operating Revenues	 70,016,785	 64,360,487
 Operating Expenses		
Personal Expenses	419,884	417,913
Contractual Services	5,832,050	11,831,128
Supplies and Materials	5,400	4,727
Rent, Insurance & Other Related Charges	33,496	32,416
Depreciation	-	407
Non-recurring Cost Estimate Payments to Providers	35,378,255	35,076,450
Expendable Equipment/Improvements	29,586,205	28,302,873
 Total Operating Expenses	 71,255,290	 75,665,914
 Operating Income (Loss)	 (1,238,505)	 (11,305,427)
 Nonoperating Revenues (Expenses)		
Interest	295,988	1,510,444
Expenses from Security Lending Transactions	(8,595)	(62,354)
Loss on Fixed Asset Disposal	(5,160)	-
 Total Nonoperating Expenses	 282,233	 1,448,090
 Income (Loss) Before Transfers	 (956,272)	 (9,857,337)
 Transfers		
Transfers to the General Fund of the Commonwealth	(10,745,098)	(11,853,592)
 Total Transfers	 (10,745,098)	 (11,853,592)
 Increase (Decrease) in Net Assets	 (11,701,370)	 (21,710,929)
 Total Net Assets, July 1	 27,250,283	 48,961,212
 Total Net Assets, June 30	 \$ 15,548,913	 \$ 27,250,283

NOTE: The Enterprise Funds include E-911 and VIPNet services.

Exhibit E
Combined Statement of Revenues, Expenses, & Changes in Net Assets
General and Special Revenue Funds
For Period Ended June 30, 2004

	General Funds	Special Revenue Funds
Revenues	\$ 7,519,795	\$ 2,402,618
Expenditures	<u>7,518,481</u>	<u>1,822,680</u>
Revenues Over (Under) Expenditures	<u>1,314</u>	<u>579,938</u>
Other Financing Sources/(Uses)		
Transfers in/(out)	<u></u>	<u>1,967,851</u>
Net Change in Fund Balance	1,314	2,547,789
Fund Balance, July 1	<u>-</u>	<u>527,576</u>
Fund Balance, June 30	<u><u>\$ 1,314</u></u>	<u><u>\$ 3,075,365</u></u>

The main components of the Special Revenue Funds are the IFA, PPEA, GIS, Virginia Technology Infrastructure and Federal funds with fund balances of \$129,000, \$200,000, \$325,000, \$299,000 and \$1,993,000, respectively.

Attachment 1
Proposed Board Endorsement Letter for 2004 – 2006 Biennial Budget Amendments

October 13, 2004

The Honorable John Bennett
Secretary of Finance
Richmond, Virginia

Dear Secretary Bennett:

On behalf of the Information Technology Investment Board (ITIB), I am pleased to convey to you the Board's endorsement of the amendments to the 2004-06 biennial budget proposed by the Virginia Information Technologies Agency (VITA).

These amendments were presented to the Board by VITA's leadership at our October 13, 2004, meeting. As VITA's governing body, comprised of appointees of both the Governor and General Assembly, members are well aware that accommodating the financial requirements of a new, highly visible agency can present additional challenges in the complex exercise of crafting a balanced state spending plan that at the same time sets a clear, appropriate direction for state government. Bearing this in mind, we are impressed with VITA's conservative, but proactive, approach to obtaining funding for the state's most critical information technology needs.

We are pleased to also inform you that our endorsement of the amendment proposals reflects the decisions made by the Secretary of Technology in his review of VITA's initial amendment brief submission. The Board is committed to actively supporting the funding requirements described in VITA's October 13 submission to the Department of Planning and Budget. In that regard, consistent with our mandate to direct Virginia's information technology operations, we respectfully request the opportunity to participate in the Executive Branch's consideration of these amendments in developing the 2005 Budget Bill.

We look forward to working with you and other administration representatives in furthering our mutual objective to transform the provision of information technology in the Commonwealth.

Sincerely,

Dr. Mary Guy Miller
Vice-Chair

cc: The Honorable Mark Warner
The Honorable Eugene Huang
The Honorable William H. Leighty
The Honorable Richard D. Brown
The Honorable Lemuel Stewart, CIO